**Practice with GDP, Unemployment and Inflation**

**WHAT IS COUNTED AS GDP? USE “Y” FOR YES and “N” FOR NO.**

1.\_\_\_\_ A monthly check received by an economics student who has been granted a scholarship.

2.\_\_\_\_ The purchase of a tractor by a farmer.

3.\_\_\_\_ The purchase of a second-hand tractor by a farmer.

4.\_\_\_\_ Proceeds from cashing in a US savings bond

5.\_\_\_\_ The services of a mechanic in fixing the radiator on his own car.

6.\_\_\_\_ Old Age and survivor’s insurance check received by a retired store clerk

7.\_\_\_\_ An increase in business inventories

8.\_\_\_\_ Government purchases of parts of nuclear missiles

9.\_\_\_\_ The income of the barber who cuts your hair

10.\_\_\_ Income received from redeeming coupons on an AT&T bond

11.\_\_\_ Cash received from the sale of an AT&T bond

12.\_\_\_ The purchase of Van Gogh’s painting by an art dealer.

**WHICH SECTOR OF GDP? USE “C” FOR CONSUMPTION, “I” FOR BUSINESS INVESTMENT, “G” FOR GOVERNMENT, “NX” FOR NET EXPORTS AND “NC” FOR NOT COUNTED.**

13.\_\_\_ $5 you spend to see a movie

14.\_\_\_You pay $100,000 to a contractor for a home you built this year.

15.\_\_\_ You pay the bank the remaining amount of your mortgage for a home constructed 5 years ago.

16.\_\_\_ You pay a tailor $275 for making a suit.

17.\_\_\_ The government increases its military expenditures by $3 billion.

18.\_\_\_The government makes a $200 Social Security payment to a retired person.

19.\_\_\_You buy 1000 shares of General Motors stock for $5378 including a broker’s fee of $378.

20.\_\_\_At the end of the year, a flour-milling firm finds that its inventories of grain and flour are $10,000 above the amounts of it inventories at the beginning of the year.

21.\_\_\_A housewife does a lot of work caring for her husband and two kids.

22.\_\_\_General Motors buys new robots for its factory at Wentzville.

23.\_\_\_ You pay $300 a month to rent a house.

24.\_\_\_Apple Computer builds a new factory in Mexico.

25.\_\_\_ R.J. Reynolds Company buys control of Nabisco Brands cookies.

26.\_\_\_You buy a new Toyota that was built in Ohio.

27.\_\_\_You pay tuition to attend Georgia Southern University.

28.\_\_\_You buy a new Honda that was built in Japan.

**WHO IS HURT AND WHO IS HELPED BY UNANTICIPATED INFLATION? CIRCLE THE LETTER THAT BEST FITS EACH SCENARIO, THEN EXPLAIN YOUR ANSWER.**

**“H” REPRESENTS PERSON/GROUP IS HURT**

**“G” REPRESENTS PERSON/GROUP IS HELPED OR GAINS.**

**“U” MEANS IT IS UNCERTAIN IF PERSON/GROUP IS AFFECTED OR IF EFFECTS ARE UNCLEAR.**

29. Banks extend many fixed-rate loans. H G U

Explanation:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

30. A state government receives revenue mainly from a progressive income tax. H G U

Explanation:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

31. A widow lives entirely on income from fixed-rate corporate bonds. H G U

Explanation:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

32. A farmer buys machinery with a fixed-rate loan to be repaid over a 10-year period. H G U

Explanation:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

33. Your family buys a new home with an adjustable-rate mortgage. H G U

Explanation:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

34. Your savings from your summer job are in a savings account paying a fixed rate of interest. H G U

Explanation:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

35. A retired man lives entirely on income from Social Security. H G U

Explanation:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

36. A retired couple lives entirely on income from a pension the woman receives from her former employer. H G U

Explanation:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

37. The federal government has a $12,000,000,000 debt. H G U

Explanation:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

38. What conclusions can you draw about who is helped and who is hurt by unanticipated inflation?

**FOR EACH OF THE FOLLOWING SITUATIONS, PUT THE APPROPRIATE LETTER BEFORE THE EXAMPLE.**

**F** IF IT IS AN EXAMPLE OF FRICTIONAL UNEMPLOYMENT.

**C** IF IT IS AN EXAMPLE OF CYCLICAL UNEMPLOYMENT.

**S** IF IT IS AN EXAMPLE OF STRUCTURAL UNEMPLOYMENT.

\_\_\_1. A skilled glass blower becomes unemployed when a new machine does her job faster.

\_\_\_2. Workers are laid off when the local manufacturing plant closes because the product made there isn’t selling.

\_\_\_3. A computer programmer is laid off because of a recession.

\_\_\_4. A literary editor leaves her job in New York to look for a new job in San Francisco.

\_\_\_5. A high school graduate lacks the skills necessary for a particular job.

\_\_\_6. An unemployed college graduate is looking for his first job.

\_\_\_7. An individual refuses to work for minimum wage.

\_\_\_8. Slumping sales lead to the cashier being laid off.

TEST YOUR UNDERSTANDING OF MACROECONOMIC INDICATORS: ANSWER THE QUESTIONS ABD BRIEFLY EXPLAIN YOUR ANSWERS.

1.The unemployment rate and employment both go up. Ellen says that it is not possible for both to rise at the same time. Is Ellen correct or incorrect? Why?

2. True, false or uncertain, and explain why? “Gross domestic product measures the amount of wealth in the economy.”

3. True, false, or uncertain and explain why? “A decrease in gross domestic product must reduce a person’s standard of living.”

4. True, false, or uncertain and explain why? “If nominal GDP increases by 5% and the price level increase by 7%, real GDP has decreased.”

5. True, false or uncertain, and explain why? “Frictional and structural unemployment are two words for the same thing.”

6. Why does unanticipated inflation help borrowers and hurt lenders?

7. True, false or uncertain, and explain why? “If the economy is at full employment, the unemployment rate is zero.”